

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5709

DEPARTMENT OF CORRECTIONS

Agency No. 310

Special Audit

July 1, 1993 Through December 31, 1995

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Background

In January 1996, the Department of Corrections (DOC) notified the State Auditor's Office of a possible conflict of interest violation by a former DOC employee. DOC believed the employee, while acting in his capacity as a project manager for Capital Programs within DOC, contracted for services with a private company owned by the employee's wife. As a result of this conflict of interest violation, DOC asked the State Auditor's Office to perform a special audit of expenditures made to this vendor.

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Scope And Opinion

This report represents the results of our audit of Capital Program expenditures made to a specific vendor of the Department of Corrections, for the period of July 1, 1993, through December 31, 1995. The purpose of our audit was to determine whether expenditures were made properly on behalf of the agency.

Our audit was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. This audit was conducted under the authority of *Revised Code of Washington* (RCW) 43.09.330.

The scope of our audit was limited to determining:

- a. If payments made for goods and services provided by the vendor were properly supported, and whether those goods and services were contracted in accordance with state laws concerning purchasing.
- b. Whether a conflict of interest occurred between the DOC employee initiating the purchases and the vendor.

The scope of our work was not sufficient to enable us to express an opinion on the agency's financial statements and we do not express an opinion on the financial position or results of operations of the Department of Corrections.

In our opinion, as detailed in the following finding, the Department of Corrections did not comply with state purchasing laws and did not verify that goods and services were actually received prior to authorizing payment. In addition, an employee violated Chapter 42.52 RCW, Ethics in Public Service, by participating in financial transactions with a vendor in which he had a beneficial interest.

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Schedule Of Findings

1. The Department Of Corrections Should Comply With State Purchasing Laws

Capital Programs, a department of the Division of Management and Budget within the Department of Corrections (DOC), did not always comply with state purchasing laws when purchasing goods and services. These instances occurred in smaller capital projects managed by one DOC employee.

During our investigation, we found that a project manager initiating payments for goods and services used in capital projects did not follow proper bid procedures when selecting a vendor. We also found that DOC staff did not verify these goods and services were actually received prior to authorizing payment.

In addition, DOC identified 19 direct payments to one vendor, totaling \$642,043 which were made in violation of Chapter 42.52 RCW, Ethics in Public Service. The employee initiating these purchases selected a company owned by his wife. Under Washington's community property laws, he had a beneficial interest in payments he authorized and approved for his wife's company. The person initiating these purchases is no longer employed by the Department of Corrections.

RCW 43.19.1906 states in part:

Inssofar as practicable, all purchases and sales shall be based on competitive bids, and a formal sealed bid procedure shall be used as standard procedure for all purchases and contracts

and

(2) . . . Quotations from four hundred dollars to thirty-five thousand dollars, or subsequent limits as calculated by the office of financial management, shall be secured from at least three vendors to assure establishment of a competitive price and may be obtained by telephone or written quotations, or both.

The state of Washington Office of Financial Management's *Policies, Regulations, and Procedures* manual states in Section 2.2.3.2.2 (b):

Prior to payment authorization, agencies are to verify that the goods and services received comply with the specifications indicated on the purchase documents.

RCW 42.52.020 states:

Activities incompatible with public duties. (Effective January 1, 1995.) No state officer or state employee may have an interest, financial or otherwise, direct or indirect, or engage in a business or transaction or professional activity, or incur an obligation of any nature, that is in conflict with the proper discharge of the state officer's or state employee's duties.

RCW 42.52.030 states:

Financial interests in transactions, (Effective January 1, 1995.)

(1) No state officer or state employee may be beneficially interested, directly or indirectly, in a contract, sale, lease, purchase, or grant that may be made by, through, or is under the supervision of the officer or employee, in whole or in part, or accept, directly or indirectly, any compensation, gratuity, or reward from any other person beneficially interested in the contract, sale, lease, purchase, or grant.

(2) No state officer or state employee may participate in a transaction involving the state in his or her official capacity with a person of which the officer or employee is an officer, agent, employee, or member, or in which the officer or employee owns a beneficial interest.

The Executive Conflict of Interest Act, in effect prior to January 1, 1995, had a similar provision in RCW 42.18 which prohibited a state employee from having a beneficial interest in a contract or other transaction under his or her supervision.

Because this employee did not comply with state laws and regulations requiring competitive bids, DOC cannot provide assurance that goods and services were purchased at the least cost to the state. Because DOC did not verify that goods and services were actually received, they also cannot provide assurance that payments were made for actual services rendered.

The violation of state laws and regulations occurred because DOC did not establish adequate controls to ensure compliance and to ensure that goods and services paid for were actually received. Project managers routinely initiate purchases, sign for receipt of goods and services, and authorize payments with no additional monitoring or review. While all DOC employees received training in the ethics laws, DOC did not have controls in place to ensure that employees followed these laws.

We recommend DOC establish adequate separation of duties and appropriate monitoring and review procedures to ensure compliance with state laws and regulations.

We also recommend the Executive Ethics Board review this matter and take whatever action is deemed necessary under the circumstances.

We further refer this matter to the Washington State Office of the Attorney General and the Thurston County Prosecuting Attorney for review and any further action deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.330.

Auditee's Response

To ensure that similar situations do not occur, DOC immediately implemented significant internal improvements, including:

- 1. Procedures that provide for both a proper competitive procurement process and appropriate segregation of duties in procuring and receiving goods and services.*
- 2. Routine management review of contract expenditures for reasonableness.*
- 3. Training on purchasing authorities for project staff.*

Auditor's Concluding Remarks

We appreciate the assistance and cooperation of DOC staff during the course of this audit. We will review corrective action during the course of our next audit.